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Approved For Release 2003/05/14 : CIA-RDP78S01932A000100160037-1

MESSAGE HANDLING INDICATOR

TIME GROUP

CITE

CIA/WHSS

SOURCE REF:

ROUTING

1		4		7		10	
2		5		8		11	
3		6		9		12	

CIA/DCI/WH/IZWH 740918

No Item Number

TO: IMMEDIATE WHITE HOUSE//SITUATION ROOM FOR MR FAZIO.4

~~ITEM NO: WH 3~~

DATE: 18 SEPTEMBER 1974

25X1

SUBJECT: OPEC CONFERENCE RESULTS

OPEC DECIDED LAST WEEK TO FREEZE POSTED PRICES FOR THE FOURTH QUARTER OF 1974, BUT TO INCREASE MEMBER GOVERNMENTS' TAKE BY 3.5% EFFECTIVE OCTOBER 1 TO COMPENSATE FOR INFLATION. BECAUSE TAX AND PRICING POLICIES DIFFER SUBSTANTIALLY AMONG OPEC COUNTRIES, IMPLEMENTING THE INCREASE WILL TAKE A VARIETY OF FORMS. FOR THOSE PRODUCERS WHO HAVE A DUAL PRICE SYSTEM, TAXES ON EQUITY OIL WILL BE BOOSTED; FOR THOSE WITH A SINGLE PRICE SYSTEM, SOME OTHER MECHANISM WILL BE USED.

A STRAIGHT APPLICATION OF THE OPEC FORMULA INDICATES THAT THE WEIGHTED AVERAGE COST TO THE PRODUCING COMPANIES FOR CRUDE WILL INCREASE BY AT LEAST 33 CENTS, TO \$9.84 PER BARREL. ACTUALLY, WE THINK IT LIKELY THAT THE INCREASE WILL BE ON THE ORDER OF 40 TO

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50 CENTS.

COMPANY PROFITS ON THEIR

CRUDE OPERATIONS IN THE GULF ARE ON THE ORDER OF 40 TO 50 CENTS

PER BARREL. WE WOULD EXPECT THAT MOST OF THE

INCREASED COST OF OIL WILL BE PASSED ON/TO THE CONSUMER.

~~OUR ANALYSES OF THE OPEC AGREEMENTS AND PREVAILING BUYBACK PRICES, HOWEVER, SUGGESTS THAT THE ACTUAL INCREASE IN THE COST OF OIL MAY BE CLOSER TO 5% THAN THE 3 1/2% OPEC CLAIMS. THIS WOULD EQUATE TO 40 TO 50 CENTS PER BARREL RATHER THAN THE 33 CENTS PER BARREL USED BY OPEC.~~

THE SAUDIS WERE ODD MAN OUT AT VIENNA. THEY WOULD NOT GO ALONG WITH THE INCREASES IN ROYALTIES AND TAXES--A POSITION SIMILAR TO ~~THE ONE THEY TOOK~~ ~~THAT TAKEN~~ AT THE QUITO MEETING. THEY INDICATED, HOWEVER, THAT THEY WOULD INCREASE THE AVERAGE PRICE OF SAUDI OIL FROM \$9.34 PER BARREL TO \$9.47--ABOUT 13 CENTS PER BARREL, BUT STILL 20 CENTS BELOW THE STATED OBJECTIVE OF OPEC. THIS WOULD MAKE SAUDI OIL THE CHEAPEST IN OPEC. ACTUALLY, WE BELIEVE THAT YAMANI'S POSITION AT VIENNA WAS JUST POSTURING AND THAT WHEN THE TIME COMES TO SETTLE ACCOUNTS WITH ARAMCO YAMANI WILL INSIST

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ON RECEIVING RETROACTIVE REVENUE THAT WILL AT LEAST EQUAL THE
OPEC FORMULA.

OTHER ITEMS FROM THE OPEC CONFERENCE:

--AS OF JANUARY 1975, THE RATE OF INFLATION IN INDUSTRIALIZED
COUNTRIES WILL AUTOMATICALLY BE TAKEN INTO ACCOUNT WHEN
ADJUSTING NEW PRICES.

--A WORKING COMMITTEE WILL STUDY A NEW SYSTEM FOR LONG-TERM
OIL PRICING.

--A STUDY WILL BE MADE ON THE SUBJECT OF SUPPLY AND DEMAND.
IN THE MEANTIME, A NUMBER OF COUNTRIES ANNOUNCED THEIR
DECISION TO MAKE A VOLUNTARY CUTBACK IN THEIR PRODUCTION
LEVEL.

--A REPORT OF THE WORKING PARTY ON THE OPEC DEVELOPMENT FUND
WAS EXAMINED AND THE MEMBERS DECIDED TO CONTINUE AID ON A
BILATERAL AS WELL AS A MULTILATERAL BASIS.

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